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DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

ALASKA PUBLIC UTILITIES COMMISSION

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December 18, 1996

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DEC 19 1996

FCC MAIL ROOM

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: CC Docket No. 96-45

Dear Mr. Caton:

Enclosed are an original and four copies of the Comments of the Alaska Public Utilities Commission in response to the Public Notice (DA96-1891) released November 18, 1996, by the Common Carrier Bureau seeking comments on the Recommended Decision of the Universal Service Joint Board.

Sincerely,

ALASKA PUBLIC UTILITIES COMMISSION



Sam Cotten, Chairman

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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)
Federal-State Joint Board on)
Universal Service)

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DEC 19 1996
CC Docket No. 96-45
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Comments of the
Alaska Public Utilities Commission

Date: December 18, 1996 Sam Cotten, Chairman
Alaska Public Utilities Commission
1016 West Sixth Avenue, Suite 300
Anchorage, Alaska 99501

SUMMARY

The Alaska Public Utilities Commission (APUC) supports the recommendation of the Joint Board on universal service issues, with the following comments:

a) The Federal Communications Commission (FCC) may need to reevaluate the amount of support paid to companies that remain under an embedded-cost-based system if intrastate costs change as a result of the FCC's pending reform to its access charge and separations policies.

b) The FCC should allow direct reimbursement to a utility for providing discounts to health care providers when the costs for such discounts exceed the utility's contributions to the system. To do otherwise would create a hardship to small carriers that pay little or no contribution to universal services.

c) Alaska and other rural areas may require special consideration to ensure comparability of rural and urban health care services. Comparability should include functionality to ensure that health care providers receive appropriate discounts on critical services.

d) A number of questions exist regarding the

1 recommendation to support only one line to primary
2 residences and single-line businesses.

3 e) Contributions to the universal service fund should
4 be assessed on both interstate and intrastate revenues.
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6 f) The discounts proposed for schools and libraries,
7 including the determination of need based on the percent of
8 students eligible for the national school-lunch program,
9 appears reasonable.
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2 Before the
3 FEDERAL COMMUNICATIONS COMMISSION
4 Washington, D.C. 20554
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6 In the Matter of)
7)
8 Federal-State Joint Board on) CC Docket No. 96-45
9 Universal Service)
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11 Comments of the
12 Alaska Public Utilities Commission

13 The Alaska Public Utilities Commission (APUC)
14 appreciates the opportunity to file comments in response to
15 the November 18, 1996, Public Notice (DA 96-1891)
16 concerning the Recommended Decision of the Joint Board in
17 CC Docket 96-45.

18 The APUC generally supports the recommendation of the
19 Joint Board in this matter, with some qualifications. Due
20 to the abbreviated filing schedule in this proceeding, the
21 APUC will limit its comments to issues concerning the
22 proposed embedded-cost-based universal service mechanism,
23 reimbursement for and provision of discounts to health care
24

25
26 Comments of the Alaska Public
Utilities Commission

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CC Docket No. 96-45

1 providers, the recommendation to support only one line to
2 the primary residence and single-line businesses, the issue
3 of interstate/intrastate revenue assessment, and discounts
4 for schools and libraries.

5
6 I. Embedded Cost System

7 The APUC supports the Recommended Decision to allow
8 rural companies in Alaska and Insular areas to remain on an
9 embedded-cost-based system for determining high-cost
10 support. Under the Recommended Decision, these rural
11 carriers would receive a frozen level of support per line
12 based on their historical costs. The APUC notes, however,
13 that the Federal Communications Commission (FCC) intends to
14 conduct major reform of its access charge and separations
15 policies within the next few months. It is likely that
16 this reform will lead to changes in the current balance of
17 cost recovery between the jurisdictions and between
18 services. If such a change were to occur, the APUC
19 requests that the FCC expeditiously reassess the per-line
20 support paid to carriers to ensure that rates remain
21 affordable.
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1 II. Health Care Reimbursement

2 Under the Recommended Decision, a carrier is
3 compensated for supplying discounted services to health
4 care providers (HCPs) by taking an offset to what the
5 carrier would normally contribute to the universal service
6 fund. If the cost of discount exceeds the contribution,
7 the difference will be treated as a credit to reduce the
8 carrier's following year's contribution into the fund.
9 Carriers will internally fund the difference until some
10 undetermined future year when contributions finally exceed
11 discounts.
12

13
14 The APUC requests that the FCC allow direct
15 reimbursement as an alternative to offset. First, some of
16 the smallest carriers will not contribute to universal
17 service due to the exemption provisions discussed in the
18 Recommended Decision at 800. As a result, those carriers
19 will never be compensated for provision of discounts to
20 HCPs. Second, the small companies that do contribute may
21 not have the resources to internally fund the yearly
22 difference between the discount and the contribution. For
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25

1 example, assuming a revenue assessment rate of .01 percent,
2 the four smallest local exchange carriers in Alaska would
3 pay between \$17 and \$92 per year in contributions to the
4 universal service fund.¹ The minimal amounts of
5 contribution are unlikely to ever balance the discounts
6 that may be made available to HCPs, leaving these small
7 companies to internally fund the difference. The APUC is
8 especially concerned about this point given the uncertainty
9 of the magnitude of discount to be applied to HCP services
10 and the limited resources of small carriers. The APUC
11 requests that the FCC allow direct reimbursement of an
12 eligible utility's cost of providing discounts to HCPs when
13 such costs exceed the utility's contributions to the
14 system.

15 III. Health Care Services

16 Provision of telecommunications services to HCPs in
17 Alaska faces unique difficulties. Alaska is the only state

22 ¹ Based on 1994 calendar year gross revenues as reported in
23 the APUC Annual Report for Fiscal Year 1995, at 86-87. It
24 is not known what percentage rate will be applied to gross
25 revenue net payments to other carriers, but even at a 5
percent rate contributions by these small rural companies
may be minimal compared to the discounts provided to HCPs.

1 that is heavily dependent upon satellite communications to
2 provide links between the majority of the remote, rural
3 HCPs and the few regional hospitals and health care
4 services. Satellite technology creates limitations (e.g.,
5 time delay between transmission and reception of the
6 signals, bandwidth restrictions, high-cost) which make it
7 extremely difficult for rural HCPs to receive needed
8 services conveniently and economically. Affordable
9 connectivity, where available in rural Alaska, is often
10 limited to 9.6 kbps, with some locations limited to 2.4
11 kbps service. These low data rates are unlikely to be
12 sufficient to meet the needs of HCPs. The APUC believes
13 that at a minimum 128 kbps to 384 kbps data lines should be
14 available at a reasonable cost. This would allow store-
15 and-forward technologies for data transfer. Faster, 384
16 Kbps to 1.544 Mbps data services would facilitate video
17 teleconferencing and teleradiology at the larger rural
18 health care facilities that may serve as regional hubs for
19 remote locations with limited facilities.

20
21 As a second point, in many rural areas, the HCP and
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23

1 possibly the local school may be the only customers likely
2 to require high-bandwidth services. This market "thinness"
3 reduces availability and adds to the expense of needed
4 services.

5
6 Given the above situation, the APUC urges the FCC to
7 establish a system of funding to ensure that these
8 critically needed services are both available and
9 affordable to the rural HCPs. Such an approach would be
10 consistent with the intent of the Telecommunications Act of
11 1996 at 254(h)(1)(A) which states that HCPs in rural areas
12 should be provided with "telecommunications services which
13 are necessary for the provision of health care services" at
14 rates comparable to those found for similar services in
15 urban areas.
16

17
18 When evaluating this issue of comparability, the FCC
19 should review the costs to the HCPs of obtaining a
20 functionally equivalent urban service. It will not be
21 enough to simply compare the toll and local rates between
22 urban and rural areas in isolation of how the HCPs combine
23 those rates to meet their telecommunications needs. For
24

1 example, in Alaska most urban HCPs can transmit digital
2 data to the closest hospital at relatively inexpensive
3 local rates. In contrast, sending the same digital data
4 from a rural HCP via satellite to the closest hospital
5 incurs distance-sensitive, expensive toll charges.²
6 Similarly, access to Internet Service Providers (ISPs) in
7 rural areas of Alaska is extremely limited. As a result
8 the majority of rural HCPs in Alaska incur high
9 toll/distance based costs to access ISPs, while urban based
10 HCPs can access ISPs through a local call.
11

12 High costs of service as well as infrastructure
13 limitations lead HCPs to develop creative, but often sub-
14 optimal, solutions in response to their telecommunications
15 needs.³ Thus, the APUC requests that the FCC include a
16 degree of flexibility in the package of services that will
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20 ² For example, it was recently reported to the APUC that for
21 one rural telemedicine project the cost for providing
22 fractional T-1 service between Anchorage and Dutch Harbor,
Alaska, would have been \$5000 per month.

23 ³ For example, the Alaska Telemedicine Project has indicated
24 that various infrastructure and cost constraints have led it
25 to develop an approach to telemedicine and telehealth that
emphasizes "narrow bandwidth" applications.

1 ultimately receive discount. It is also critical that the
2 FCC set discounts and funding levels to recognize the cost
3 disparity between urban and rural HCP services created by
4 distance-based charges and infrastructure limitations.
5
6 Discounts are needed to ensure that rural HCPs have
7 affordable, available, high-bandwidth services similar to
8 their urban counterparts.

9 IV. Single Line/Multi Line

10
11 The Joint Board has recommended that only one line to
12 both primary residences and single-line businesses be
13 supported through universal service funding. The APUC
14 believes that several issues regarding this approach should
15 be addressed prior to its implementation.

16
17 a) Some states, Alaska included, are prohibited by law
18 from allowing discrimination in rates between customers
19 within the same class. As a result, a question exists as
20 to whether all states could charge customers in the same
21 class differently solely dependent upon whether service was
22 provided to a primary or secondary residence. Could state
23 laws create difficulties in implementing the Joint Board's
24

1 Recommended Decision on this point?

2 b) How will the "first" line be determined in areas
3 with multiple carriers serving the same household? With
4 the advent of competition, separate carriers could provide
5 the first and second lines to businesses and residences,
6 with each carrier believing it provided the first and only
7 line eligible for support. In this example, which carrier
8 would be eligible for support? As the two carriers would
9 be unlikely to disclose their customer lists, how will the
10 FCC ensure that only the "first" line is provided support?
11 Will customers be able to order service from two separate
12 carriers in order to benefit from the lower rate for their
13 second line?
14

15 As a second point, the APUC assumes that it was the
16 Joint Board's intent to apply its recommended embedded-cost
17 support per line using the historical definition for
18 eligible lines as opposed to using only the first lines to
19 primary residences and businesses. The APUC agrees with
20 this approach. Applying the embedded-cost support per line
21 to only the first lines for these small rural companies
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1 could create hardship by immediately reducing support by
2 half and would lead to incorrect results given that the
3 embedded system would develop an average amount of support
4 per line based on the costs of the first lines and other
5 less expensive lines. In addition, providing support for
6 only the first line would create incentives for high-cost,
7 rural carriers to reduce or limit construction of the
8 second line to each household. This could lead to a
9 disparity between rural/urban quality of service and
10 accessibility to the Internet (a common reason for purchase
11 of a second line). The tendency to reduce infrastructure
12 may also lead to reduced competition as there could be
13 fewer second lines and spare capacity available for use by
14 resellers while the market is developing.

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18 V. Interstate/Intrastate Revenues

19 The APUC supports the Recommended Decision that
20 contributions to the universal service fund for schools,
21 libraries, and rural HCPs be assessed on both interstate
22 and intrastate revenues. The APUC believes that each
23 state's total revenues, when compared to total nationwide
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25

1 revenues, fairly represents each state's ability to
2 contribute to the funding of universal service. In
3 addition, assessing contributions in this manner may be
4 more competitively neutral as it reduces the incentive to
5 miscategorize revenues so as to reduce a carrier's
6 contribution.
7

8 The APUC also believes that funding for high-cost and
9 low-income programs should be the same as that for schools,
10 libraries, and HCPs. Funding these mechanisms on different
11 revenue bases would only create confusion and increase
12 costs of administration.
13

14 VI. Schools and Libraries

15 The APUC supports the Joint Board's recommendation
16 regarding schools and libraries, including the concept that
17 need for support can be estimated by percentage of students
18 eligible for the national school lunch program.
19 Eligibility for the school lunch program provides an
20 efficient, easily determined method for deciding this
21 issue.
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1 Conclusion

2 The APUC generally supports the Recommended Decision
3 of the Joint Board but recommends that the FCC recognize
4 that its policy changes in other areas may necessitate an
5 increase in funding to high-cost rural companies; that
6 companies should be allowed direct reimbursement for
7 provision of discounts to HCPs; rural HCPs should be given
8 flexibility in the selection of services to be provided
9 discount, with funding provided to reduce the high-costs
10 associated with distance charges and to allow purchase of
11 high-bandwidth services at affordable rates; and key
12 questions exist regarding the implementation of the
13 proposed policy to fund only the first line to primary
14 residences and single-line businesses.

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18 RESPECTFULLY SUBMITTED this 18th day of December, 1996.

19 BY DIRECTION OF THE COMMISSION

20
21
22 

23 By: Commissioner Sam Cotten
24 Chairman of the Alaska Public
25 Utilities Commission

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners:

Sam Cotten, Chairman
Don Schröer
Alyce A. Hanley
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CERTIFICATION OF MAILING

I, Linda L. Schwass, certify as follows:

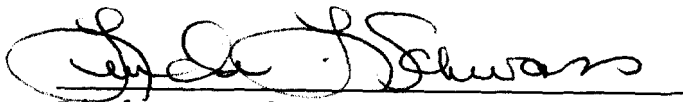
I am an Administrative Clerk II in the offices of the Alaska
Public Utilities Commission, 1016 W. Sixth Avenue, Suite 400,
Anchorage, Alaska 99501.

On December 18, 1996, I mailed true and accurate copies with
postage thereon of:

COMMENTS OF THE ALASKA PUBLIC UTILITIES COMMISSION

to the persons indicated on the attached service list.

DATED at Anchorage, Alaska, this 18th day of December, 1996.


Linda L. Schwass

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**December 13, 1996
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